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Editorial

In 1992, when voters went to the polls to decide whether Switzerland should become a member of the IMF and the World Bank, the international landscape looked markedly different. The Soviet Union had just collapsed, the role of China and other emerging economies in the global economy was only a fraction of what it is today, and Switzerland had not even yet become a member of the United Nations. There was a lively political debate at the time, with many non-governmental organizations supporting a different development path than that promoted by the so-called Bretton Woods Institutions (BWI), while other stakeholders raised questions about their financial architecture. However, Swiss voters ultimately approved the referendum on May 17, 1992 with 56% of the vote.

The world has changed drastically over the last 25 years. And as it became clear to Switzerland that global problems needed increased international cooperation, membership in the BWI—including a seat at the decision-making table—represented an important change in direction for Swiss foreign policy. The contribution to IDA, the World Bank's fund for the poorest countries, now constitutes far and away the largest single contribution of Swiss ODA, reflecting the importance and global relevance of the World Bank Group in helping Switzerland achieve its development goals. The Bank is also an important complement to Switzerland's bilateral development activities, especially in countries and regions where Switzerland is not actively involved.

25-year membership in the World Bank and IMF

Swiss membership signing to World Bank Group, 5/29/92. From left to right: Markus Lusser, President of the Swiss National Bank; Timothy Thahane, Vice President and Secretary WBG; Federal Councillor Otto Stich, Head of the Swiss Federal Department of Finance; Richard Frank, Vice President IFC. Courtesy of The World Bank Group Archives

On the occasion of Switzerland's 25-year membership in the BWI, our 23rd and final issue of the Multilateral Accent takes a closer look at the history (and future) of Switzerland's partnership with the World Bank. From the politics of representing the diverse group of eastern European and central Asian countries that make up Switzerland's constituency on the Executive Board to defining the Bank's vital role in supporting the implementation of the 2030 Agenda for Sustainable Development, we explore how this important partnership and commitment to multilateralism has impacted Switzerland, the Bank, and the world.

The institutional and operational cooperation with the World Bank is a joint responsibility between SECO and SDC. Both of our institutions are committed to capitalize on this commemorative opportunity. We aim to reflect on and learn from the past to ensure that Switzerland's future cooperation with the World Bank strengthens and improves in order to maximize the gains for the world's poorest people.

This is the last issue of the Multilateral Accent, however we will continue with our focus on multilateral cooperation as part of the Global Brief (Newsletter of the Global Cooperation Domain of SDC).

Nicole Ruder
Daniel Birchmeier

Silver anniversary of World Bank and IMF membership

Twenty five years ago Switzerland took a seat in the governing bodies of the Bretton Woods institutions – a quarter of a century during which the relationship has deepened and solidified, especially with the World Bank in terms of development and the fight against poverty.

On 2 November 1992, Jean-Daniel Gerber took up office as Switzerland's first Executive Director at the World Bank in Washington. Upon arrival at the institution's head office, he met a small group of less than a dozen people whom he did not know, who spoke languages he did not understand (and only rudimentary English), and whose career paths and experiences were completely different from his own. They were the representatives of the countries that had joined Switzerland to create a constituency, which was granted a seat in the governing bodies of the World Bank and International Monetary Fund (IMF).

The countries represented in this group were Azerbaijan, Kyrgyzstan, Poland, Turkmenistan and Uzbekistan. Kazakhstan, Tajikistan and Serbia joined the group later. The new director had just enough time to allocate the available offices to his colleagues before a messenger arrived with a stack of files. It was the documents for the next meeting of the Bank's Board of Directors scheduled for the following day. He quickly understood that he would have to immerse himself in the World Bank Group's working environment in record time, get to know his 23 colleagues on the Board and… organise himself in such a way as not to drown in the flood of paperwork – all at a time when the storage capacity of computers was a fraction of a USB stick today.

Initial results

From the beginning, Switzerland's ambition was to shift the role of the Bank away from a "lending-approval culture towards an implementation or development-impact philosophy," explained Mr Gerber. This approach was based on the principles underlying Switzerland's own policy in this area. At the end of its first year of tenure, Switzerland had already taken an active part in discussions on the reform of the Bank, on its information policy, and on the creation of an independent inspection unit. Even the Swiss aid agencies declared themselves "satisfied with the work done by our country during the first year of its affiliation with the World Bank Group (WBG)," according to the Graduate Institute of Development Studies in Geneva. At the end of 1993, the Federal Council's 'Report on Switzerland's foreign policy in the nineties provided the first assessment: "Switzerland's active cooperation on an equal footing in such international organisations as the World Bank and the International Monetary Fund has produced a positive result."

The operative words here are "on an equal footing". Switzerland had adopted the principle of accession in 1982 and obtained observer status, but to wield influence at a time when multilateralism was becoming increasingly important, being a simple member would not be enough. It had to have a seat on the Board of Directors. When the Board decided to create a 23rd seat for Russia following the dissolution of the Soviet Union in 1989, Switzerland saw its last chance to also get a seat. From the beginning of the 1990s it embarked on a diplomatic marathon, approaching the Central Asian republics of the former Soviet Union as well as Poland with the aim of forming a group (known as a constituency) and claiming a 24th seat on the Board. With the support of 56% of the Swiss electorate gained in a referendum, Switzerland became a member of the boards of the IMF and World Bank – on an equal footing, even if the voting rights of each group of countries differ according to their shares in the Bank. Today, Switzerland and its group "weigh in" at 3.11% of the votes.

Helvetistan punches above its weight

Heterogeneous constituencies are not uncommon in the Bretton Woods institutions. Nevertheless, the culture shock had to be overcome. After taking up office at the World Bank in 1997 as the second Swiss executive director, Matthias Meyer realised that the transition to a market economy in the ex-Soviet republics was not self-evident. Among his colleagues and during his trips to their countries, he met planners, party secretaries, and public service managers, but never economists, MBA graduates or lawyers, as he recalled in a book published for the 20th anniversary of accession. "The systemic difference was a major obstacle for the integration of post-Soviet members of our constituency into the Bretton Woods institutions."

The cooperation with countries with doubtful human rights records also drew criticism within Switzerland. For the Federal Council, in its reply to a parliamentary motion in 2011, cooperation with these countries, "especially within the Bretton Woods institutions, ultimately serves Switzerland's overall foreign policy objectives" in terms of stability, security, influence in multilateral fora, and ultimately our economic and energy interests as well. "Switzerland worked to facilitate economic and political reforms in the member states of its constituency," it added. This collaboration within what became known as 'Helvetistan' has resulted in privileged bilateral relations with these countries.

At any rate, this unusual alliance would turn a handicap into an advantage in Washington. For instance, when Switzerland presents its constituency's positions to the Board of Directors, the rough edges have already been smoothed out through negotiations between the group's very disparate members. They are thus more easily accepted in the plenary, and this is one of the reasons why the Swiss executive directors have often felt their group punches above its voting weight.

The other reason stems from the career paths of the executive directors, according to Reto Grüninger, who was an adviser to the Swiss executive director at the World Bank from 2012 to 2016. "More than half the executive directors of the Board of Directors came from finance ministries. Others, like Switzerland's, came from the field of development. They were better equipped when it came to discussing strategies or projects on a country basis. They were also more used to making the link between the project level and the institutional level. That made a difference in the long term." This ability is above all useful in the preparation of the dossiers, which are practically concluded by the time they are presented to the Board.

The evolution of the World Bank

The World Bank has gone through radical transformation over the years, abandoning a top-down approach to development and adopting a more holistic approach. In 2004, for example, it abandoned the much criticised structural adjustment loans, replacing them with development policy loans. In 2011, for the first time, it spoke of the complexity of development and of the need to invest in justice, security and job creation – in line with Switzerland's views. Switzerland was one of the first countries to advocate that the World Bank work with fragile countries and those affected by conflict. This theme, addressed for the first time in 2011, became a central plank of the institution's new strategy in 2013, together with the elimination of poverty, climate change and gender equality, which are also Swiss priorities. The World Bank has also developed better ways to coordinate with the United Nations (to which Switzerland has contributed by funding pilot projects since 2010), in particular within the context of the Sustainable Development Goals.

This evolution has not prevented aberrations, however, particularly in the area of involuntary resettlement. The current president of the World Bank himself acknowledged this in 2015 after the publication of a broad inquiry carried out by the International Consortium of Investigative Journalists. For Mark Herkenrath, director of Alliance Sud (an umbrella organisation of six major Swiss charities), at a time when the World Bank "returns to major centralised infrastructure projects and appeals more to the private sector while weakening its own standards, we would have hoped that Switzerland would place more emphasis on development policy," an area in which it has "broad knowledge".

The challenges ahead

The World Bank has changed, but the world around it is changing even faster. Many countries, having become emerging economies, are able to fund their development by their own means or with other resources. New funding structures have emerged that have called the central role of this venerable institution into question. "The demand for World Bank Group-like institutions and funding has not diminished," says Joerg Frieden, Swiss executive director from 2011 to 2016. The World Bank continues to play a central role in the political support for and the promotion of global public goods that transcend national borders to fulfil a truly universal role.

Even if we can question the impact of some of the Bank's projects on development, Frieden continued, "it is indisputable that the World Bank Group has become a global centre of development expertise." Moving forward, its relevance will depend on its capacity to meet a series of challenges, including being more selective in its priorities; better integrating public-private partnerships in its approach to development; being global, that is continuing to serve all countries, not only the poorest; working alongside the United Nations in fragile and conflict-affected countries; securing stable financial resources; and, lastly, adjusting its policies to better reflect the realities of an increasingly multipolar world.

Swiss executive directors of the World Bank

Jean-Daniel Gerber	1992–1997
Matthias Meyer	1997–2002
Pietro Veglio	2002–2006
Michel Mordasini	2006–2011
Joerg Frieden	2011–2016
Werner Gruber	2016–present

Five questions to JEAN-DANIEL GERBER, first Swiss Executive Director, and to WERNER GRUBER, current Executive Director, at the World Bank Group.

25 years ago, what were the Swiss expectations regarding its World Bank Group (WBG) membership ? And what are they now ?

Jean-Daniel Gerber (JDG): Switzerland's main expectation regarding WBG membership has not changed: seeking to promote the sort of development assistance that fights poverty and reduces inequalities.

Werner Gruber (WG): They remain to participate in the global development policy dialogue, to shape the Bank's priorities and to leverage Switzerland's bilateral development cooperation. In a world more interconnected and more interdependent, the World Bank has become even more important. It is standing at the forefront of the implementation of the Sustainable Development Goals, the Paris COP agreement, and the Addis Ababa Action Agenda. Its work to fight pandemics, adress the drivers of migration crisis and combat illicit financial flows is of direct relevance for Switzerland.

The watchword of Switzerland, from the beginning, was to align its positions in the WBG on its own principles regarding the developing countries. Was it always possible ?

JDG: It would be exaggerated to claim that the Swiss view always carried the day. However, I do not hesitate to say that Switzerland has successfully punched above her weight in the debate on development.

WG: It is one of Switzerland's strengths to be able to rely on its extensive own development cooperation experience in the dialogue within the Bank. The insistence on self-responsibility of the partners, "smart" regulatory systems, targeted social services, and innovative private solutions has contributed to shaping the new development concepts and given Switzerland a clear profile in the Board of the Bank.

Has the membership been favourable to Switzerland? Why and how?

JDG: The purpose of Swiss membership was not to secure material advantages, but rather to influence the policy of the world's largest development institution. This aside, one of the largest benefits to Switzerland was the fact that, as a leader of a voting group it was able to fully participate as a principal actor and advisor in the development endeavours of its constituency group member countries after the fall of the Soviet empire.

WG: Thanks to its seat in the Board, Switzerland has an exceptional opportunity to influence the global development policy and public goods dialogue within one of the most influential multilateral institutions. At the same time, it benefits from the Bank's research, its policy dialogue, convening power and its funding to leverage its own development cooperation. The water dialogue, financial sector assessments, engagement in fragile contexts and the restitution of illicit funds are areas in which Switzerland did pioneer activities with the Bank.

Switzerland has always put forward that it could have a positive influence on the autocratic countries of its constituency towards democracy. What is your assessment ?

JDG: 25 years ago practically none of the Central Asian countries existed as a state. They were part of the Soviet Union – and, prior to that, they were all but democracies. With their new-found independence they had to start from scratch in all respects. It was totally unrealistic to expect the Central Asian countries to achieve in only a few years the degree of political and economic development which many Western European countries have taken centuries to accomplish. However, a constant drip gradually erodes the stone, and Switzerland should not abandon its endeavours to convince these countries of the benefits of democracy.

WG: Switzerland played an important role in establishing and maintaining a strong and trusted partnership of these countries with the World Bank and contributed to them slowly opening up their economies. Many of the Bank's activities, e.g., in the financial sector in Azerbaijan, in the public expenditure management in Kyrgyz Republic or in water and sanitation in Tajikistan benefit from Swiss co-financing.

How did the WBG change since 1992 ? And what else should change ?

JDG: In 1992 the WB was rightly criticised for inefficiencies and for not taking sufficient account of environmental issues and questions of governance. Since then, however, project and programme preparation has significantly improved and the controlling instruments have been strengthened. Of course, there is still much more to be done in this respect but, in comparison to 1992, the situation has considerably improved.

WG: The Bank has taken a more holistic approach to development over the last 25 years, which includes structural reforms, institutions building, private sector development and domestic resources mobilization. Development assistance has become development partnership with more responsibility given to the partner countries. The notions of sustainability and inclusiveness of growth play a more important role. Going forward, the Bank will have to further strengthen its role as a center of development expertise, dealing with current and future development challenges. More focus needs to be given to the expansion of the private sector and the mobilization of private resources. At the same time, the Bank needs to have its own necessary means to play its critical role to end extreme poverty and promote shared prosperity.

Jean-Daniel Gerber

Werner Gruber

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Editorial collaboration: Michel Bührer

Translation from French: FDFA

Nicole Ruder, Head of Global Institutions Division, SDC
nicole.ruder@eda.admin.ch

Daniel Birchmeier, Head of Division "Multilateral Cooperation", SECO
daniel.birchmeier@seco.admin.ch